

# House Study Bill 502

HOUSE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL BY  
CHAIRPERSON VAN FOSSEN)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

## A BILL FOR

1 An Act phasing out the state income tax on social security  
2 benefits and on pension and retirement income and including  
3 effective and applicability date provisions.  
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:  
5 TLSB 5621YC 81  
6 mg/sh/8

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1 1 Section 1. Section 422.7, subsection 13, Code Supplement  
1 2 2005, is amended to read as follows:  
1 3 13. a. Subtract, to the extent included, the amount of  
1 4 additional social security benefits taxable under the Internal  
1 5 Revenue Code for tax years beginning on or after January 1,  
1 6 1994, but before January 1, 2011. The amount of social  
1 7 security benefits taxable as provided in section 86 of the  
1 8 Internal Revenue Code, as amended up to and including January  
1 9 1, 1993, continues to apply for state income tax purposes for  
1 10 tax years beginning on or after January 1, 1994, but before  
1 11 January 1, 2011.  
1 12 b. (1) For tax years beginning in the 2007 calendar year,  
1 13 subtract, to the extent included, twenty percent of taxable  
1 14 social security benefits remaining after the subtraction in  
1 15 paragraph "a".  
1 16 (2) For tax years beginning in the 2008 calendar year,  
1 17 subtract, to the extent included, forty percent of taxable  
1 18 social security benefits remaining after the subtraction in  
1 19 paragraph "a".  
1 20 (3) For tax years beginning in the 2009 calendar year,  
1 21 subtract, to the extent included, sixty percent of taxable  
1 22 social security benefits remaining after the subtraction in  
1 23 paragraph "a".  
1 24 (4) For tax years beginning in the 2010 calendar year,  
1 25 subtract, to the extent included, eighty percent of taxable  
1 26 social security benefits remaining after the subtraction in  
1 27 paragraph "a".  
1 28 c. Married taxpayers, who file a joint federal income tax  
1 29 return and who elect to file separate returns or who elect  
1 30 separate filing on a combined return for state income tax  
1 31 purposes, shall allocate between the spouses the amount of  
1 32 benefits subtracted under paragraphs "a" and "b" from net  
1 33 income in the ratio of the social security benefits received  
1 34 by each spouse to the total of these benefits received by both  
1 35 spouses.  
2 1 d. For tax years beginning on or after January 1, 2011,  
2 2 subtract, to the extent included, the amount of social  
2 3 security benefits taxable under section 86 of the Internal  
2 4 Revenue Code.  
2 5 Sec. 2. Section 422.7, subsection 31, Code Supplement  
2 6 2005, is amended to read as follows:  
2 7 31. a. For a person who is disabled, or is fifty-five  
2 8 years of age or older, or is the surviving spouse of an  
2 9 individual or a survivor having an insurable interest in an  
2 10 individual who would have qualified for the exemption under  
2 11 this subsection for the tax year, subtract, to the extent  
2 12 included, the total amount of a governmental or other pension  
2 13 or retirement pay, including, but not limited to, defined  
2 14 benefit or defined contribution plans, annuities, individual  
2 15 retirement accounts, plans maintained or contributed to by an  
2 16 employer, or maintained or contributed to by a self-employed  
2 17 person as an employer, and deferred compensation plans or any

2 18 earnings attributable to the deferred compensation plans, up  
2 19 to a maximum of six thousand dollars for a person, other than  
2 20 a husband or wife, who files a separate state income tax  
2 21 return and up to a maximum of twelve thousand dollars for a  
2 22 husband and wife who file a joint state income tax return.  
2 23 However, a surviving spouse who is not disabled or fifty-five  
2 24 years of age or older can only exclude the amount of pension  
2 25 or retirement pay received as a result of the death of the  
2 26 other spouse. A husband and wife filing separate state income  
2 27 tax returns or separately on a combined state return are  
2 28 allowed a combined maximum exclusion under this subsection of  
2 29 up to twelve thousand dollars. The twelve thousand dollar  
2 30 exclusion shall be allocated to the husband or wife in the  
2 31 proportion that each spouse's respective pension and  
2 32 retirement pay received bears to total combined pension and  
2 33 retirement pay received.

2 34 b. For the tax year beginning January 1, 2007, subtract an  
2 35 amount equal to twenty percent of the income described in  
3 1 paragraph "a" after the exclusion in paragraph "a" is  
3 2 subtracted.

3 3 c. For the tax year beginning January 1, 2008, subtract an  
3 4 amount equal to forty percent of the income described in  
3 5 paragraph "a" after the exclusion in paragraph "a" is  
3 6 subtracted.

3 7 d. For the tax year beginning January 1, 2009, subtract an  
3 8 amount equal to sixty percent of the income described in  
3 9 paragraph "a" after the exclusion in paragraph "a" is  
3 10 subtracted.

3 11 e. For the tax year beginning January 1, 2010, subtract an  
3 12 amount equal to eighty percent of the income described in  
3 13 paragraph "a" after the exclusion in paragraph "a" is  
3 14 subtracted.

3 15 f. For tax years beginning on or after January 1, 2011,  
3 16 subtract the total amount of the income described in paragraph  
3 17 "a".

3 18 g. For a husband and wife filing separate state income tax  
3 19 returns or separately on a combined state return, the  
3 20 additional exclusion in paragraphs "b" through "f" shall be  
3 21 allocated to the husband or wife in the proportion that each  
3 22 spouse's respective pension and retirement pay received bears  
3 23 to total combined pension and retirement pay received.

3 24 Sec. 3. EFFECTIVE AND APPLICABILITY DATE PROVISIONS. This  
3 25 Act takes effect January 1, 2007, and applies to tax years  
3 26 beginning on or after that date.

3 27 EXPLANATION

3 28 This bill phases out the state income tax on social  
3 29 security benefits over a five-year period and phases out the  
3 30 state income tax on pension and retirement income over the  
3 31 same five-year period.

3 32 For the tax year beginning on January 1, 2007, 20 percent  
3 33 of taxable social security benefits are exempted; for the tax  
3 34 year beginning on January 1, 2008, 40 percent of taxable  
3 35 social security benefits are exempted; for the tax year  
4 1 beginning on January 1, 2009, 60 percent of taxable social  
4 2 security benefits are exempted; for the tax year beginning on  
4 3 January 1, 2010, 80 percent of taxable social security  
4 4 benefits are exempted; and for tax years beginning on or after  
4 5 January 1, 2011, 100 percent of social security benefits are  
4 6 exempted from state income taxation.

4 7 For the tax year beginning January 1, 2007, an additional  
4 8 20 percent of pension or retirement income is exempted after  
4 9 the \$6,000 (for single filers) or \$12,000 (for married filers)  
4 10 is subtracted. For the tax year beginning January 1, 2008, an  
4 11 additional 40 percent is exempted; for the tax year beginning  
4 12 January 1, 2009, an additional 60 percent is exempted; for the  
4 13 tax year beginning January 1, 2010, an additional 80 percent  
4 14 is exempted; and for tax years beginning January 1, 2011, and  
4 15 all subsequent tax years, the total amount of pension and  
4 16 retirement income is exempted from state income taxation.

4 17 The bill takes effect January 1, 2007, and applies to tax  
4 18 years beginning on or after that date.

4 19 LSB 5621YC 81

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